

Chapter 4

Inflation

4.7 Inflation History

Figure 4.1 shows part of an advertisement that appeared in *Claypoole's American Daily Advertiser* on May 26, 1796.

How much would the \$10 reward be in today's dollars?

The bad news is that the Bureau of Labor Statistics calculator we've been using goes back only to 1913. The good news is that a Google search for

\$10 in 1796 inflation calculator

finds the website www.in2013dollars.com/1796-dollars-in-2016.

There you can read that "The U.S. dollar experienced an average inflation rate of 1.30% per year between 1796 and 2016. \$100 in the year 1796 is worth \$1,731.57 in 2016."

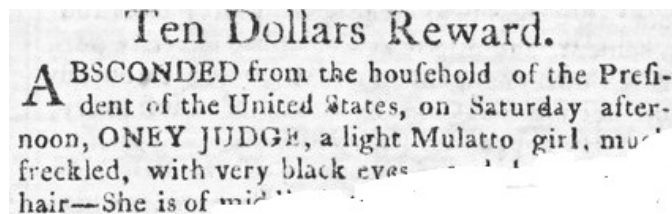


Figure 4.1: George Washington wants his slave back [R1]

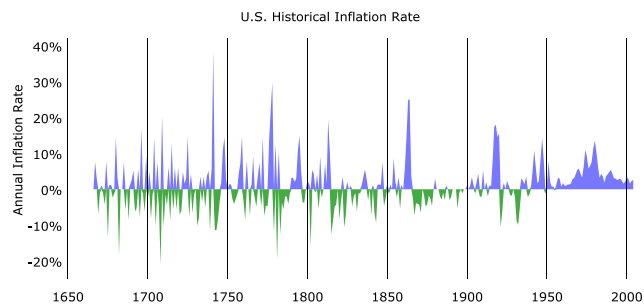


Figure 4.2: Inflation through the years [R2]

Source: The Bureau of Labor Statistic's annual Consumer Price Index (CPI), established in 1913. Inflation data from 1665 to 1912 is sourced from a historical study conducted by political science professor Robert Sahr at Oregon State University.

The website did not yet have figures for 2017 when we asked. But those pennies and the missing year are details that don't really matter. We have enough information for a proper answer to our question: a \$10 reward in Washington's time would be about \$175 today.

We found that number surprisingly small. An average inflation rate of only 1.3% per year does not match what we've experienced. Figure 4.2 explains the contradiction. Until the late 1930's there were many periods of significant *deflation* alternating with the inflation we're used to.

Since the financial reforms enacted in response to the Great Depression of 1929 there has been no significant deflation — just little in 2008: the Bureau of Labor Statistics calculator says that \$100 then had the same buying power as \$99.64 in 2009. That's a deflation rate of less than half a percent. Figure 4.3 shows a more recent tiny temporary deflation for the first month of 2015.

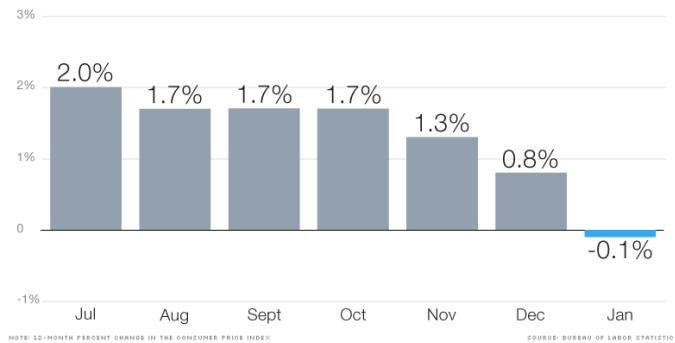


Figure 4.3: Deflation in January 2015 [R3]

- R1 J. Schuesslerfer, In Search of the Slave Who Defied George Washington, *The New York Times*, February 6, 2017, static01.nyt.com/images/2017/02/07/arts/07MTVERNONJP4/07MTVERNONJP4-blog427.jpg (last visited February 25, 2017).
- R2 U. S. Historical Inflation www.in2013dollars.com/1796-dollars-in-2016 (last visited February 25, 2017).
- R3 P. Gillespie, It's official: America has deflation, CNN Money, February 26, 2015, money.cnn.com/2015/02/26/news/economy/inflation-january-negative/ (last visited February 27, 2017).